L. R. B. & M. JOURNAL

VOLUME 28 NUMBER 1

JANUARY 1947

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90 Broad Street, Then

Published by

LYBRAND, ROSS BROS. & MONTGOMERY

Accountants and Auditors

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Recent Changes in Registration Statement Forms Under Securities Act of 1933

BY L. H. RAPPAPORT
(New York Office)

In a major operation on its registration statement forms under the Securities Act of 1933, the Securities and Exchange Commission recently revised Form S-1 and rescinded Forms A-1 and A-2. In announcing its action, the SEC stated that the rescinded forms are largely obsolete in view of the coverage of the revised S-1. It is the purpose of this article to point out the principal changes which have been made in Form S-1.

Use of the new Form S-1 is not mandatory until April 1, 1947. Prior to that date registrants are permitted at their option to use (1) Forms A-1, A-2 or old S-1, or (2) revised Form S-1.

Prior to the present revision Form S-1 comprised two parts: Part I contained those items (questions) the answers to which were required to appear in the prospectus*; Part II contained those items the answers to which were not required to appear in the prospectus. The registrant was permitted to file the prospectus in lieu of Part I of the registration statement in question and answer form. As part of the revision of S-1, the division between Parts I and II has been abolished and those items calling for information which is not required in the prospectus have been eliminated from the form proper. A registration statement on the revised S-1 will consist, in effect, of a facing page attached to a prospectus and accompanied by exhibits.

FINANCIAL STATEMENTS

In most respects the requirements as to financial statements in the revised Form S-1 are practically the same as those of the earlier form. The requirement for balance sheets of the registrant and of the registrant and its subsidiaries as of a date within 90 days prior to the date of filing (6 months in the case of listed companies having more than $5,000,000 of assets) remains unchanged. If such balance sheets are not certified, then there must be furnished certified balance sheets as of a date within one year, unless

*The term "prospectus" as used in this article refers to the general prospectus as contrasted with a newspaper prospectus.

the fiscal year of the registrant has ended within 90 days of the date of filing, in which case the certified balance sheets may be as of the end of the preceding fiscal year. Income statements are required for three years and the period, if any, to the date of the most recent balance sheets and must be certified to the date of the certified balance sheets.

The changes which have been made are for the most part in the direction of reducing the quantity of financial data in a prospectus, without, however, depriving the investor of essential information; however, in some cases the new requirements may have the effect of increasing the amount of financial information in a prospectus. As in the old form, Regulation S-X of the SEC governs the form and content of financial statements in the revised Form S-1.

Omission of Unconsolidated Statements: A new instruction in the revised form permits the entire omission from the registration statement of all unconsolidated statements of a parent company where certain conditions are met. These conditions are:

1. Consolidated statements of the company and its subsidiaries are filed.

2. The assets of the parent included in the consolidated balance sheet constitute at least 85% of the total consolidated assets.

3. The sales or operating revenues of the parent included in the consolidation amount to at least 85% of the consolidated sales or revenues.

The foregoing provision is applicable not merely to the registrant as a parent company, but also to any situation in which parent company statements are required, as, for example, where statements have to be furnished for an unconsolidated subsidiary which, in turn, is a parent of one or more subsidiaries. The old form provided for the submission of statements of a significant, unconsolidated subsidiary that would be required if the subsidiary were itself the registrant; with the modification mentioned in the paragraphs following, this provision is continued in the new form.

Omission of Statements of Unconsolidated Subsidiaries and 50% Owned Companies: The old S-1 provided for the submission of statements of significant, unconsolidated subsidiaries. It also required the filing of statements of companies approximately 50% of the voting power of which was owned by the registrant if another single interest owned approximately 50% of the voting power. Although financial statements of such subsidiaries and 50% owned companies had to be included in the registration statement, the old S-1 permitted these financial statements to be omitted

from the prospectus on condition that the aggregate assets of the companies for which statements were so omitted amounted to less than 15% of the consolidated assets.

The new S-1 also contains requirements for statements of unconsolidated subsidiaries and 50% owned companies and contains a provision whereby these statements may, in certain circumstances, be omitted. Where the aggregate assets of such companies do not exceed 15% of the total assets of their parent and its consolidated subsidiaries, *and* where the revenues of such companies do not exceed 15% of the revenues of their parent and its consolidated subsidiaries, all financial statements of such unconsolidated subsidiaries and 50% owned companies may be entirely omitted from the registration statement. This revision apparently reflects the belief that if the financial statements of such companies are not important enough to be included in the prospectus, there is not much point in having them rest in the Commission's filed. On the other hand, the revision will have the effect, in some cases, of forcing the inclusion in the prospectus of the statements of an unconsolidated subsidiary with a relatively minor amount of assets but having a substantial amount of sales or revenues.

Financial Statements of Businesses Acquired or to be Acquired: The instructions of the old S-1 form provided for the submission of financial statements of businesses acquired within one year or to be acquired by the registrant. No statements, however, had to be filed for relatively insignificant acquisitions. The test of significance in this connection was an asset test: if the assets of the business acquired or to be acquired were 15% or less of the assets of the parent and were not revalued to exceed that amount, then statements for such business did not have to be submitted.

The new Form S-1 also calls for statements of businesses acquired within one year or to be acquired by the registrant. There is also a provision for the omission of insignificant acquisitions, but the test is now a revenue test in addition to an asset test. In the new form, statements of such businesses may be omitted if:

(1) The assets of such businesses do not exceed 15% of the consolidated assets of the registrant and its subsidiaries, *and*

(2) The gross revenues of such businesses do not exceed 15% of the consolidated gross revenues of the registrant and its subsidiaries.

Supporting Schedules: Other than the schedule of supplementary profit and loss information, all schedules in support of financial

statements previously were required to be included in Part II of S-1. These schedules must now be furnished as an exhibit accompanying the prospectus.

Historical Financial Information

Accountants as well as underwriters and investors have long questioned the desirability of including in prospectuses the information furnished pursuant to "Historical Financial Information" (Item 45 of Form A-2, Item 36 of old Form S-1). Apparently the SEC shares these views, for a notable improvement has resulted from the treatment accorded this item in the present revision.

It may be recalled that "Historical Financial Information" dealt with revaluations of certain assets (such as property, investments and intangibles), write-offs of discount and expense on funded debt still outstanding, and so forth. Although similar, these items in Forms A-2 and S-1 were not identical either as to content or period to be covered. In an A-2 filing the information had to be furnished beginning with 1922, whereas in an S-1 the data were required to be furnished for the seven year period preceding the income statement filed with the registration statement.

In the present revision, the item as it appeared in the old S-1 form has been preserved but with this important difference: the item is not required to be included in the prospectus. Furthermore, as to companies filing annual reports under the Securities Exchange Act of 1934, the item may be omitted entirely. That is, the information is not required of listed companies that file "K" forms, or of unlisted companies that file "MD" forms. Some companies will still have to furnish the information, but need not burden their prospectus with it.

Narrative Material

Numerous changes have been made in the requirements relating to the narrative material, that is, the information other than financial statements. For the most part these changes represent merely refinements of language, but certain of the revisions are relatively important and should result generally in more simplified prospectuses than those currently in use.

Underwriting Contract: The old form called for a brief outline of the material provisions of the underwriting contract. The new form requires substantially less information of this nature. The form now calls for a statement as to whether or not the underwriters are, on or before the date of the public offering, to own or to be irrevocably bound to take the securities. If the answer is in the negative, then a brief statement is to be furnished as to the nature

of their obligation to take the securities.

Description of Securities not being Registered: The old form called for information regarding capital shares whether or not they were being registered. In an offering of funded debt, for example, the prospectus described not only such funded debt but also the preferred and common stocks of the issuer. Much of this information concerning the junior securities, such as the voting rights, liquidation rights, and so forth, is of no interest to the holder of a senior security. Consequently, the new form eliminates the description of securities not being registered except as such information is essential to an understanding of the rights evidenced by the securities being registered.

Remuneration of Directors and Officers: Revision has also been made in the requirements for the submission of information concerning the remuneration of officers, directors and certain other persons, such as attorneys, independent public accountants, engineers, architects, etc. The new form calls for remuneration received by the following for services in the most recent fiscal year:

(1) Each director or *executive* officer whose remuneration from the registrant and its subsidiaries exceeded $20,000, or 1% of the registrant's total assets, whichever is less.

(2) Each of the following persons whose remuneration exceeded $20,000:

(a) Each affiliate of the registrant;

(b) Each trustee of a voting trust owning more than 10% of any class of equity security of the registrant;

(c) Each person owning more than 10% of any class of equity securities of the registrant;

(d) Each person, other than the registrant, with whom any person named in (b) and (c) had a material relationship.

A new instruction provides that if it is contemplated that the aggregate remuneration paid to any director or officer named in answer to this item for the current fiscal year will exceed by more than 10% the aggregate remuneration of such person for the latest full fiscal year, the estimated remuneration for the current year shall also be stated.

An instruction has also been added which is intended to elicit appropriate information regarding remuneration paid indirectly in the form of options, warrants or rights to purchase securities.

The term "executive officer" is defined as meaning the president, vice president, secretary and trea-

surer, and any other person who performs policy making functions for the registrant.

Indemnification of Directors and Officers: Part II of old Form S-1 contained an item calling for a description of the arrangements under which any director or officer of the registrant is insured or indemnified against any liability he may incur in his capacity as such director or officer. This item is now required to be included in the prospectus. This requirement, however, merely formalizes current practice.

Security Holdings: A substantial revision has been made in the requirements for information concerning the securities owned by certain persons. Previously Form S-1 called for the inclusion in Part II of information as to all securities of the registrant, its parent, and significant subsidiaries owned of record or beneficially by the following:

(1) Each underwriter.

(2) Each director and officer.

(3) Each person owning more than 10% of any class of equity security of the registrant.

The foregoing information had to be furnished as of a date within 90 days prior to filing and, in addition, as of a date approximately one year earlier.

The new Form S-1 requires that information as to security holdings be included in the prospectus, but is limited to the following groups:

(1) Each person owning 10% or more of any class of equity securities of the registrant.

(2) All directors and officers, as a group, without naming them.

It will be seen that information need not be furnished as to the security holdings of underwriters as such. Also, since the information is now to be given only as of a date within 90 days of filing (and not in addition as of an earlier date), there should be a considerable reduction in the amount of investigatory work to be done in the preparation of a registration statement on Form S-1.

Acquisitions of Property: If the registrant succeeded to a significant predecessor in the last five years, the old S-1 form called for certain information as to any property acquired in the succession:

(1) The amount at which it was acquired by the registrant.

(2) The principle followed in determining the amount.

(3) The identity of the persons making the determination.

(4) The relationship between such persons, if material, and the registrant.

In this respect the new form goes beyond the old and requires corres-

(*Continued on page 21*)

Types of Industries to Which Standard Costs are Applicable and Why*

By A. R. Kassander
(*New York Office*)

In discussing this subject, we should first of all understand the concept and meaning of standard costs as used in these remarks. I shall not discuss peculiarities, differences, merits nor applicability of various types of standard costs and standard cost systems. For the purpose of this paper it makes little difference whether we think of basic or current standards, tight or loose standards, ideal standards, practically attainable standards, time study standards for labor, and engineering specifications for material, or just averages of past performance.

It is not that those distinctions do not matter—they certainly do, but time and space do not permit of including them in this discussion. A high-grade, finely-tempered saw is quite different from one bought at Woolworth's in the quality of work that may be produced, but they are both saws and are used in the same manner. So I want to talk about a tool of management and its uses rather than to compare various styles in which the tool may be obtained.

It should be noted that I refer to a tool of management, not tool or technique of accounting. As we proceed with the discussion, you will note a number of cases where standard cost methods may or may not be the easiest way to develop cost of sales for the income statement. But I believe in each of those cases it will be found that the standard cost approach was highly useful in providing management with data under accounting control and subject to accounting proof, and in time to take action where necessary and possible, as to:

1. The actual results of operations in relation to planned results with reasons for differences.

2. The effect of changes in operating or market conditions realized or contemplated.

A standard cost system for our present purpose is any system which

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**Editor's Note:* Mr. Kassander's article is based on an informal talk on this subject which he gave last year before the Brooklyn Chapter of the National Association of Cost Accountants. In view of the familiarity of his audience with the technique and mechanics of cost accounting, Mr. Kassander's discussion was limited to a general review of results which had been or could be attained in certain situations through the application of standard costs.

includes the following characteristics:

1. A predetermined cost set forth in sufficient detail so that production at any stage may be evaluated at standard.
2. Provision for recording in the accounts actual costs directly comparable with related standard costs.
3. Provision for recording cost variations in whatever detail management requires to measure performance in relation to the standards.

Every business man, at the beginning of a year, when taking a new order or when initiating a new line or product, sets up either consciously or subconsciously some type of estimate as to his sales, costs and profits. Each month the accountant reports on results. Can the accountant answer some of the following questions directly from his reports without lengthy supplementary investigation resulting in answers so long delayed that the president, sales manager and production manager take some form of action based on hunch, guess or general knowledge of conditions?

Is the gross profit by production classifications what we expected?

Which products are out of line?

Is the unsatisfactory profit margin caused by reduction in selling prices or increase in costs?

If increase in costs, in what departments or operations and why? That is,

Did material increase in price, or did we spoil or waste more than planned?

Did productivity of labor decrease or did the rate per hour go up?

In general, the question operating management wants answered is: Where and why did we make more or less profit than we expected and who should receive the credit or be charged with the responsibility?

The aim of every cost accountant should be to answer those questions promptly and continuously as live current information. Unless he is able to do so, his importance to management will not grow, for he will find that operating heads are setting up their own records to develop the data they want. If he is able to answer those questions, he will be the eyes and ears of the operating man. He will not try to control—the operating man must do that, but the cost accountant will know what is under control, what is out of control and how much.

There follows a discussion of a number of illustrative cases taken from a variety of industries. These examples point out how standard cost methods resulted in improved

accounting information or how they might be used for that purpose.

Before discussing the several cases attention is called to one type of so-called standard cost system which is not discussed in this presentation. I refer to the use of a "standard" cost to relieve work in process inventory with respect to partial shipment or delivery to finished stores from an order the cost of which is recorded on an actual job order cost basis. Such procedure is not a standard cost system; it meets none of the definitions previously set forth. It is merely an accounting expedient to relieve work in process inventory on an estimated basis until such time as the order is completed and costs may be computed.

Case 1. A Manufacturer of Metal Containers: The extensive job order cost system in use covering the large number of different types of containers was used only periodically, as a guide for establishing selling prices. Cost of goods sold for the monthly statement of income was computed by means of a method similar to the "retail" method; that is, production was priced at selling prices and the total was compared to total costs to manufacture. Thus an average gross profit percentage was calculated and applied to sales amount. The job cost system had little, if any, use as an instrument for control of manufacturing processes or for works or general accounting.

Inquiry and study disclosed that the manufacturing department maintained a complete set of cost standards for direct labor and direct material expressed as allowed operation time for labor and units of material. Extensive records were maintained for the comparison of actual labor performance and material usage with the standards. It was obvious that the conditions were most favorable for the incorporation of existing cost standards into a cost accounting system, which would provide all the information required for financial statements, works accounting, manufacturing control data and aid in the establishment of selling prices with the elimination of considerable duplication of clerical effort.

Case 2. A Brass Mill Producing Sheet, Rod and Tube: The existing process cost system developed average cost per pound for each mixture or alloy in each of the three mills (sheet, rod, tube). The actual differences in cost between various sizes and finish within a mixture might well be more significant than the differences between mixtures. Hence the sales department used production department estimates of yield and necessary labor operations as a guide in establishing selling prices. There was no control over the accuracy of estimates or their relationship to actual performance.

From month to month there were differences in recorded gross

profit percentages for the several mixtures which frequently could be explained only on an assumption of variations in the proportion of various sizes and finish within each mixture. Due to the large number of items being produced neither job order costs nor individual standard costs were practicable.

Discussion with company engineers developed that for a given mixture and shape, mill labor operations are identical for all sizes within determinable bracket of elongation and reduction of area. It was thus possible to establish cost standards per pound by product classes. By coding each product to its appropriate product class the number of necessary standards was a fraction of the number of individual items.

Reports prepared under the standard cost system provided mill supervision with comparisons of actual with standard costs by operations, showed gross profit ratios for the several product classes without distortion due to variations in "sales mix" and provided controlled data as to the soundness of estimates on new products.

Case 3. A Grey Iron Foundry: The company operated a standard cost system using standard costs per pound, separate standards having been established for various weight classifications. The system worked reasonably well until the pressures of war production developed, when the accounts indicated adverse cost variations.

The superintendent insisted that improved methods assured lower costs, accounting reports to the contrary notwithstanding. A plausible explanation of the paradox, but one difficult to prove, was that under the subcontracting program which the company had undertaken to supplement its own production facilities, the simpler castings were being subcontracted while the more difficult patterns, those requiring utilization of the company's "know how," were retained in its own foundry.

Again, inquiry disclosed that the production department maintained a file of time allowances by operations for each pattern. The production manager placed considerable confidence in these records; they were the basis of scheduling foundry production and making delivery promises. The substitution of time standards by individual patterns for the old averages was not difficult. Costs became more accurate and analysis of variations by operations enabled foundry supervision to compare the time allowances with actual performance.

Case 4. A Machine Shop and Assembly Operation: The product was a complicated piece of machinery consisting of about 1,000 parts. A conventional current standard cost system had been in effect. Under such a system inventories

are carried in the accounts at standard costs. Variations from standard costs are disposed of currently through variance accounts.

Frequent and extensive changes in design and methods of manufacture (incident to war time operation) necessitated continuous revisions of standards if these were to be reasonably representative of attainable costs under existing conditions. Hence the company converted to a basic standard cost system under which costs are recorded at actual and the standards are used as a basis of measurement rather than as a criterion of performance.

Costs were accumulated for each part and assembly. With respect to labor, for example, the cost record showed standard hours earned, actual elapsed hours and actual money earned. Thus, it was possible to develop with respect to each part an actual wage rate per standard hour. As parts were completed and delivered, work in process inventories were relieved at the standard labor hours for the completed parts priced at the cumulative average actual wage rate per standard hour. It will be observed that as long as a separate cost record is maintained for each part number the accuracy of the actual cost of a part is not dependent upon the accuracy or reasonableness of the standard labor hours, as long as such standards remain unchanged. Obviously, any conclusions as to efficiency based on comparison of standard and actual hours will be affected by the accuracy of standards. In this case the system was developed primarily to obtain actual costs, without necessarily using the standards as a measure of operating efficiency.

Case 5. A Machine Shop and Assembly Operation: The distinction between this case and the previous one lies in the fact that the company about to be discussed had a long operation cycle and stated its sales and gross profit amounts on a percentage completion basis; that is, the books included no work in process inventory amounts.

At the inception of a contract the company established detail operation standards in hours. At the end of each month the standard hours produced were related to the total standard hours in the contract to obtain percentage completion. This percentage applied to the total amount of the contract resulted in the amount credited to sales. All actual costs incurred were charged to cost of goods sold.

The foregoing sales, cost and profit figures were supplemented by comparisons between standard and actual hours by operations.

Case 6. A Hosiery Manufacturer: In this company it was not customary to prepare monthly financial statements for the reason that there were no product cost

records—hence no basis for computing cost of goods sold or inventories. Complete financial statements were prepared only annually based on physical inventories priced at the lower of estimated costs or selling price less normal gross profit.

The estimated costs were prepared by the production department at the time a "number" was placed "in the line." Material requirements were estimated by breaking down a sample of the product, weighing the several ingredients and providing for waste and shrinkage based on experience. Labor requirements were estimated from operation sequences, machine capacities and wage rates. Data were available as to overhead expenses in relation to direct labor.

A standard cost system was established without difficulty based on the production department estimates. Standards based on the estimates were used to value production in the several cost elements. Actual costs similarly classified were compared with the standards and variances disposed of. Goods sold were costed at standard costs.

Case 7. An Automobile Manufacturer: The company operates a job cost system covering all parts and assemblies up to the completed automobile. The usefulness of the costs is limited to preparation of the monthly entry for cost of goods sold and estimating on new models. In the latter connection costs of design changes and new features to a large extent must be estimated by time study engineers. No records are maintained which compare estimates with eventual performance.

As was found in several of the cases already discussed, the production department maintains extensive records of allowed operation times and compares them with actual performance. Such records and comparisons are not under accounting control and presently are not in form to be coordinated with financial reports. The company is planning the introduction of standard cost accounting. The accounting department will utilize the allowed operation times developed by the production department as the basis for standard labor costs. Much of the clerical work necessary to compute costs monthly on thousands of parts and assemblies should be saved. Comparisons of actual with allowed time will be under accounting control and should tie in with labor variance amounts in the income account. The difference between estimates on new developments and subsequent performance will be recorded and such records should promote improvement in design, estimating and performance.

Case 8. A Manufacturer of Architectural Bronze: The contracts involved in this case were principally long term in connection with construction of churches, schools, office buildings, theatres, etc. The com-

pany gave accounting recognition to profit or loss only upon completion of the contract. Costs incurred with respect to each contract were carried in work in process account.

Except in the event of some major misfortune occurring in the course of manufacture or installation, it was difficult, if not impossible, to relate accumulated costs, progress of work and contract price. To secure greater current information on the progress of contracts the following procedures were introduced: Each contract was broken down into progressive phases of the work and estimates of cost of each phase prepared. At intervals the stage of completion of each phase was estimated and accumulated cost was reviewed in relation to the cost estimate. The purpose of this procedure was to provide data to enable management to take corrective action where possible and to recognize in the accounts anticipated losses.

It will be observed that basically this procedure contains the fundamentals of a standard cost system as hereinbefore defined, namely,

1. A predetermined cost in sufficient detail to permit the evaluation of production at standard
2. Actual costs which are comparable with the related standard costs
3. The recognition of cost variations.

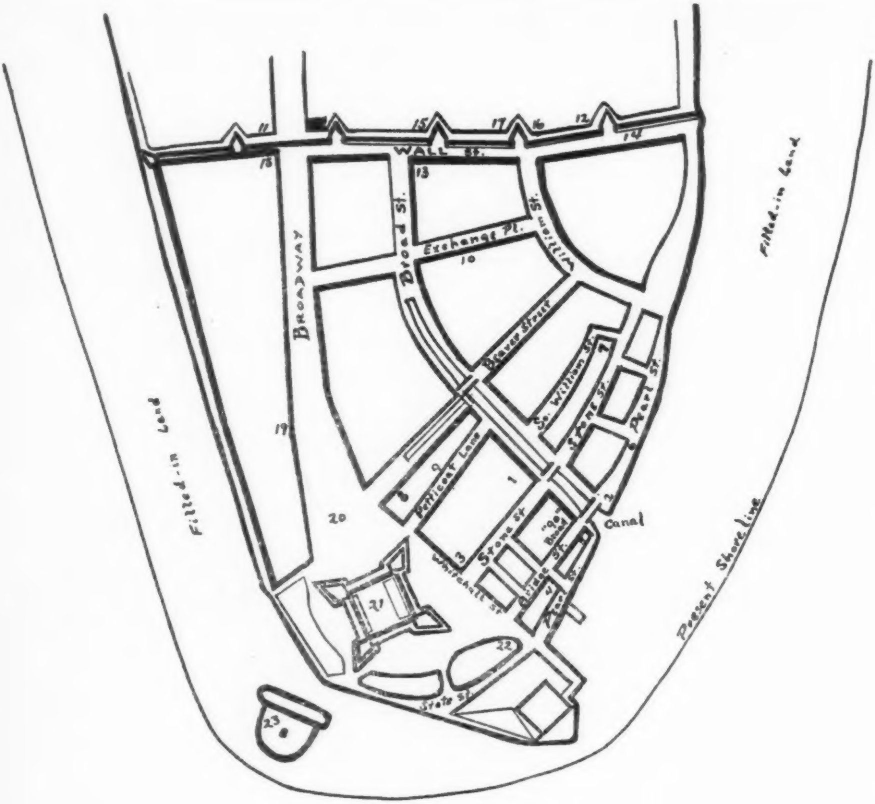
Case 9. A Manufacturer of Pharmaceutical Products: The company operated a process cost system—by products, by operation or process and by "batch." The total unit cost of a product was computed as the sum of unit operation costs. Operation costs were recorded by batch passing through each process. Since there was considerable fluctuation in the several batch costs, comparable fluctuations were reflected in the product costs.

Standard costs were established for each process and standard product costs computed therefrom. Production in each process was evaluated at standard and compared with the actual cost of the process. Cost accumulation by batch was not necessary. Variations from standard cost by operation were reflected in the comparisons of actual and standard cost and were disposed of currently.

Case 10. Oil Refining: Costing in the refining industry is in large part a problem of joint costs. For purposes of costing inventories and goods sold it is customary to attribute costs to the related joint products on the basis of market values of the products. For management purposes the significant data are the cost of processing per barrel of crude oil compared to total market value of the end products.

Since, within limits, the combination of end products may be

(*Continued on page 24*)



90 BROAD—THEN

1. Jay Family property—1720.
2. Fraunces Tavern—1719.
3. First School House—1633.
4. First Dutch Church—1633.
5. First Merchant's Exchange.
6. First City Hall—1642.
7. Spanish Portuguese Synagogue—1655.
8. First Huguenot Church—1688.
9. Home of William Connelly, accountant—1801—great-grandfather of William M. Lybrand.
10. Richard Family property—1667.
11. City Hall—1700.
12. Home of Alexander Hamilton.
13. Site of J. P. Morgan & Company—sold in 1789 for $1,125.00.
14. First Stock Exchange—1792.
15. Washington took oath of office as President—1789; now Sub-Treasury Building.
16. First Banking Institution—1784; Bank of New York.
17. Site of Bank of Manhattan Company—successor to The Manhattan Company, first public utility—1799.
18. Trinity Church—1697.
19. Macomb Mansion, where Washington lived.
20. Bowling Green.
21. Fort Amsterdam—1638-1790.
22. Whitehall Mansion—1658: home of Peter Stuyvesant.
23. Fort Clinton—1807; Castle Garden—1850; Aquarium—1890.

90 Broad Street, Then

BY HARRY O. LEETE
(*New York Office*)

Residents of the metropolitan area of New York rarely appear to be conscious of the historical background of the city. To most of us who make our pilgrimages in behalf of our clients, 90 Broad Street is just a place to begin our devotions.

I was recently presented with a copy of *Money Town*, which describes the "Manhattan Toe" from the time of the Dutch settlement down through the "Roaring Twenties." My enthusiasm for this fine piece of research prompted one of my colleagues to suggest that I write an article for the JOURNAL depicting some of the more important sites of the "Manhattan Toe" which are mentioned in *Money Town*, supplemented by some of those places I have uncovered in my own amateur browsings.

On the opposite page there appears a map showing the street layout of this part of the city in 1660. The various places of interest and events mentioned in this article are keyed into the map in an accompanying legend, although some of them are of later date.

Let us begin by looking out of a window on the Broad Street side of our office. Here below us, there was once what the author of *Money Town* describes as "a very smelly ditch, which was nonetheless smelly because the Dutch deepened it and widened it and called it a canal." It was known as Heere Gracht. This canal suffered from the Dutch habit of cleanliness, as the busy housewife, intent on keeping her house spotless, swept everything out of it into the canal. Neat yellow and black brick houses lined both sides of the canal just as they did in Old Amsterdam in Holland. There were fat little flat-bottomed boats in which pigs, cows and humans all traveled in the same class on the canal. It was navigable from the lower entrance at Pearl Street approximately as far north as Exchange Place, a distance we now think of as a few blocks. Since most of the ground on either side was swampy, Broad Street was not popular for strolling. The canal was filled in by the British in 1676, during the incumbency of Governor Andros, as part of a sanitation program.

The northern side of our building is on Stone Street. The name Stone Street is said to originate from the fact that one Van Courtlandt established his home and had a large brewery in Brouwer Street, where the dust raised by his great wagons so vexed his good wife that she persuaded him to lay a stone pavement before their property. This excited so much curiosity and comment that it was soon called

"Stone Street," which name it still bears.

The following comment from *Money Town* is of interest:

> 1720: In this year the Jay family bought a lot with a frontage of 15 feet on Broad Street and a sideage of 94.6 feet on Stone Street. They still own it.

Valentine's *Manual* (1849 edition, page 352) gives the following explanation of the origin of the name Bridge Street, which is on the south side of 90 Broad Street:

> It was called de Brugh Street, or Bridge Street in 1656, when names were first given to streets in this City. The name was appropriate, from the fact that it was the street leading to the bridge across the ditch or canal at the foot of Broad Street.

Pearl Street, which is just beyond Bridge Street, was first known as "The Strand" and faced the river, as indicated by the original name. It was later named Pearl Street, apparently because of the pearl-like shells which formed its surface. The Dutch called it Perel Straat, and for nearly a hundred years it was the town's main street. It begins at Broadway, about one and a half miles from 90 Broad Street, and winds its way back of the City until it again reaches Broadway about one block from our building. Its deviation from the straight and narrow led a famous (some thought infamous) Police Chief to coin the phrase "He's as straight as Pearl Street."

Those who have had occasion to use the only remaining elevated railroad in Manhattan, the Third Avenue, might be interested to know that that part of it which traverses above Pearl Street, then makes a turn into Coenties Slip and on to the terminus at the Battery, marks the approximate original shoreline of the East River. In other words, all of the area now covered by Water Street, Front Street, South Street, et. al. is "filled-in" land.

Diagonally across the street from our office, at the junction of Pearl and Broad Streets, is Fraunces Tavern which is the restoration of the original de Lancey Home erected in 1719. Fraunces Tavern takes its name from Samuel Fraunces, who came from the French West Indies and acquired the property in 1762, when he opened it as the "Queen's Head Tavern," named after Queen Charlotte, the young wife of George III of England. It is noted particularly as the scene of Washington's farewell to his officers, December 4, 1783. Various writers estimate that some forty-four of the American military leaders were present on that occasion.

The New York Provincial Congress met there from May 18 to June 30, 1776, and the following bill is in State Records as paid for an entertainment:

The Honorable Provincial Congress, Dr.
to Samuel Fraunces—New York.
14th June, 1776

	£	s	d
To an Entertainment.........	£45	0s	0d
To 6 Dozn & 6 Bottles of Madeira	23	8	0
To 2 " & 6 " Port...	9	0	0
To Porter 23/-Cyder 37/Spruce 4/6	4	9	6
To Sangary 66/-To do. 18/- Punch 12/	4	16	0
To Madeira 12/-Bitters 3/-....	0	15	0
To Lights 8/-Wine Glass broken 16/	1	4	6
To 4 Wine Decanters 8-2/ Water Decanters 14/0	1	2	0
To a Chainie Pudding Dish 12/- Tumblers 14/-	1	6	0
	£91	1s	0d

(This account was audited and paid June 25, 1776.)

It would appear that the members of the Congress were not believers in prohibition but did believe in audits.

Fraunces Tavern was the scene of several incidents prior to the Revolution. On April 22, 1774 the Sons of Liberty and the Vigilance Committee met there and as a result of the meeting an attack was made upon the ship *London*, which had just arrived at the East India Company's wharf nearby, the tea chests in the cargo being broken open and the contents thrown overboard. On May 14, 1774, when it was learned that the Port of Boston was to be closed on June 1st, a number of merchants assembled there to consider the question of uniting with the other colonies. On August 25, 1774, the Massachusetts delegates to the Continental Congress were entertained there in the "Long Room." On May 6, 1775, John Adams and the Massachusetts delegates to the Second Continental Congress stopped there overnight on the way to Philadelphia.

The Tavern degenerated through the years into a commonplace building like others in the vicinity, having been successively used as a warehouse, tavern, hotel and saloon.

Beginning about the year 1887, several unsuccessful attempts were made to acquire the Tavern for the purpose of restoring it as an historical site. In 1892, a commemorative bronze tablet was placed on the building by The Society of the Sons of the Revolution, with appropriate ceremonies. It was not until 1906, however, two years after the Sons of the Revolution purchased the building, that restoration was undertaken. It was formally occupied and dedicated December 4, 1907, the 124th anniversary of Washington's Farewell.

Its museum contains some of the finest pieces of Americana extant. The "Long Room" where Washington bade farewell to his officers at the close of the Revolution, as well as the museum, is visited by an ever increasing number of teachers and pupils from the New York Public Schools.

Within a short distance of 90 Broad Street are many "firsts." The site of the first schoolhouse, erected in 1633, was at Stone and Whitehall Streets. Stone Street

was the first street paved, which took place in 1659; the first Dutch Church was established in 1633 on Pearl Street between Broad and Whitehall Streets; the first merchant's exchange was at the foot of Broad Street; the first City Hall was erected in 1642 at Coenties Slip and Pearl Streets; a Spanish-Portuguese Synagogue was built in 1655 on Mill Lane, the short street which runs from Stone Street to South William Street near where the banking firm of Lehman Brothers now is located; and the first Huguenot Church was established in 1688 in the little lane which runs from Beaver Street alongside the Produce Exchange.

So far we have dwelt upon scenes immediately adjacent to 90 Broad Street. Let's take a short trip up Broad toward Wall Street, where we see what appears to be an alley. This was one of the oldest thoroughfares in New Amsterdam. I speak of Marketfield Street, originally called Petticoat Lane. It should be of particular interest to us for here lived one hundred and forty-five years ago an accountant by the name of William Connolly, who, to quote from an address delivered by Mr. Sinclair at the Fifty-Ninth Annual Meeting of the American Institute of Accountants, "was the great grandfather of one of the present-day leaders of our profession, a man who commands our esteem and affection—my beloved associate—William M. Lybrand."

I trust I shall be pardoned for mentioning a personal anecdote. About a year ago I came across a clipping yellow with age regarding the death of my father's first cousin, and mentioning certain Manhattan forebears. As my father's parents were Connecticut Yankees, my curiosity was aroused to the point where I decided to do some research. It developed that the Huguenot emigrant from whom I am descended must have been "in right" with the authorities, as will be indicated by the following:

> Here December 3, 1667 he received, by patent from Richard Nicoll, "Gov. Gen. of all the Terratoreyes in America of his Royal Highness, James Duke of York and Albany," a lot on Garden Street, 11 rods long on the south, 10 rods 7 feet on the north and 1 rod on the east and 30 feet on the west. This he sold March 17, 1680 to Jacob Abrams Stantford. No wife joined him in the conveyance, and he died probably soon after.

Garden Street is now known as Exchange Place, and the site mentioned, I believe, is 40 Exchange Place and some feet beyond. How unfortunate for me that the Richard family were not like the Jay family heretofore mentioned or better still like the Astors later on who never sold but gave long term leases!

While we are in the neighborhood of Exchange Place, let's go one short block north to Wall Street. It was so named because of the structure of heavy wooden posts, driven like piles into the ground and rising some twelve feet into

the air, with their upper ends pointed, which was erected during the administration of Peter Stuyvesant in 1653, primarily as a defense against hostile attack. It has probably been the butt of more quips and the target of more attacks from rabble-rousers, than any street in the world. Perhaps the most frequent aphorism is: The street which has a graveyard at one end and a river at the other.

For many years, beginning about the middle of the eighteenth century, it was the most fashionable place to live. The presence of the City Hall in Wall Street brought the town's officialdom there. Alexander Hamilton lived at No. 58. In the latter part of the eighteenth century it became the financial center of the city, and of the nation as well. The corner lot at Wall and Broad Streets, where the J. P. Morgan & Co., Inc. building now stands, was sold in 1789 for the unprecedented price of $1,125. Brokers who had previously conducted their transactions in bars and grills began at this point to carry on their business, under an agreement signed May 17, 1792, under a buttonwood tree in front of what is now 60 Wall Street.

On April 30, 1789, Washington took his oath of office as President of the United States on the site of what is now the Sub-Treasury Building. Five years previously, Alexander Hamilton helped to establish the city's first banking institution, The Bank of New York, which stands today at the northeast corner of William and Wall Streets. You bank auditors now know why this bank is number one in the Clearing House!

In 1799, New York's first public utility, The Manhattan Company, was granted a charter from the State Legislature to supply the city with "pure and wholesome water." The present Bank of the Manhattan Company at 40 Wall Street is an outgrowth of the Manhattan Company. The story is an intriguing one from a political viewpoint. It seems that Aaron Burr, a member of the State Assembly from Manhattan at that time, saw in the chartering of the water company an opportunity for the Anti-Federalists to break the banking monopoly enjoyed by Hamilton and the Federalists. Burr wrote a clause into the water company's charter, authorizing its directors to employ their surplus capital in any manner not contrary to the state and national laws. Not until the bill became law did Hamilton and his party realize they had been outwitted. Burr apparently derived little or no advantage from this act, as shortly thereafter he was dropped from the Board of Directors of The Manhattan Company.

For a number of years the Bank of the Manhattan Company has given to some of its customers as a souvenir, a piece of the pine log

pipe used to supply water to the populace of Manhattan in the early part of the nineteenth century.

Just one block west of the Sub-Treasury Building stands Trinity Church, the original edifice of which was built in 1697. The Governor General of the colony prevailed upon Queen Anne to donate a tract of land known as the Queen's Farm to this parish. This property embraced a good part of the area now between Broadway and the Hudson River, from Fulton Street on the south to well above Spring Street on the north. The original church edifice was destroyed by the great fire of September 21, 1776. The church graveyard contains the bodies of Alexander Hamilton, who was killed in a duel by Aaron Burr at the age of 47; Robert Fulton, the inventor of the steamboat; James Lawrence of "Don't give up the ship" fame and a host of other notables.

Of more current interest, it might be mentioned that in 1929, four years before the repeal of the Eighteenth Amendment, workmen digging foundations for a new skyscraper at Wall and South Streets found one hundred bottles of West Indian rum distilled in 1804.

Coming back toward our office, if we follow Broadway toward the south, we pass 39 Broadway where Washington lived in what was known as the Macomb Mansion, and arrive at Bowling Green. This spot has a diversity of history. It was once a bowling green in front of Fort Amsterdam, where the Custom House now is. Here stood the leaden statue of King George III, which was dragged from its pedestal by the Sons of Liberty while celebrating the passage of the Declaration of Independence; the head was taken off and carted to Washington's headquarters and the remainder sent to Litchfield, Connecticut to be melted into bullets. It was also the assembling point for the citizens who met Generals Washington and Clinton immediately after the British evacuated the City on November 25, 1783.

Just southwest of Bowling Green is Battery Park, which is on "filled-in" land and contains the structure known successively as Fort Clinton, Castle Garden and the Aquarium. Here in 1850, Jenny Lind, the Swedish Nightingale, made her debut. Later on it became an immigration station, and it is undoubtedly famous for the fact that Mr. Sinclair "cleared" through it when he arrived with his parents from England at the age of four.

As we proceed toward our office, we pass through Whitehall Street, so named because it led to the Whitehall Mansion, built in 1658 as the home of "Old Silvernails" Peter Stuyvesant.

We have come to the end of our little journey, although if space permitted one could go on *ad infinitum*. No attempt has been made to associate historical events with 90 Broad Street and its en-

virons much beyond the colonial period. The district was the scene of many other historical episodes, particularly in the Civil War and later eras. Those interested can find many interesting volumes on the subject at the New York Public Library, or in private institutions, such as The New York Historical Society, The Long Island Historical Society or The New Jersey Historical Society. Of all the books, Valentine's *Manual of Old New York* is particularly recommended.

The author of *Money Town*, although born in Massachusetts, says New York has had a very inferior public relations department as compared with Boston. If so, it is probably but a reflection of the fact that most Bostonians seem to evince a greater interest in the history of their city than do the residents within fifty miles of Manhattan. And the same may certainly be said of Philadelphians!

Registration Statement Forms

(*Continued from page 6*)

ponding information as to any property, tangible or intangible, acquired by the registrant (otherwise than in the ordinary course of business) either by purchase, succession or control of another company. This information is to be supplied only if the acquisition was at an amount in excess of 15% of the total assets of the registrant as shown by its most recent individual balance sheet.

Management Contracts: The item which called for a statement of material contracts now in effect which provide for the general management of the registrant or any significant subsidiary, has been expanded to require similar information as to any such proposed contract.

The foregoing are the principal changes—but by no means all of them—which have been made in revising Form S-1. Several items in the old form have been omitted in the new either because of their unimportance or because the information required thereby is duplicated elsewhere. For example, the old S-1 form contained an item dealing with patents to be acquired, developed or exploited with the proceeds of the securities registered. This item was eliminated in the new Form S-1 since sufficient information with respect to such patents is included in the description of the business and in the statement as to the use of the proceeds from the securities being registered.

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. & Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

Sixty Years

On January 26, 1947 Mr. T. Edward Ross completed sixty years of service in the field of public accounting. During this period he has seen a young and almost unknown profession meet the problems placed before it in such a way that today it is recognized as an important influence in the world of business and finance. In that development Mr. Ross has played a large part.

In commemoration of this milestone, Mr. Ross was presented with an illuminated scroll expressing the

congratulations and best wishes of his partners and all members of our organization.

Montgomery's Tax Manuals

The 1946-47 editions of Montgomery's *Federal Taxes—Corporations and Partnerships* and Montgomery's *Federal Taxes—Estates, Trusts and Gifts* have recently come from the press.

A new feature is included in *Federal Taxes—Corporations and Partnerships*, of which Colonel Montgomery, Mr. Taylor and Mr. Richardson are the authors, in that the subject of partnerships is covered in addition to corporations. Although the excess profits tax was discontinued as at January 1, 1946, that subject is still pertinent in view of the carry-back features of operating losses and unused excess profits credit. Therefore in most cases a careful study of the rulings and court decisions rendered since the last issue, and embraced in the new edition, should prove extremely profitable.

Federal Taxes—Estates, Trusts and Gifts, of which Colonel Montgomery and Mr. Wynn are the authors, brings up to date the application of the estate tax, the gift tax, and the features of income tax peculiar to decedents, estates and trusts.

Bureaucracy

Bureaucracy has been defined as "government by bureaus, especially by rigid and arbitrary routine," and who of us has not suffered trials and tribulations through the workings of the System. But we in this country have not suffered alone. A gem of British bureaucracy, which appeared in an issue of *The New York Times* last Fall, is so amusing, and at the same time so indicative of the System at work, that we pass it on to readers of the JOURNAL. Apparently inquiry had been made regarding a certain government order, to which the Board of Trade replied as follows:

> MAKING OF CIVILIAN CLOTHING
> (Restrictions) Order, 1942
> (S. R. & O. 1942, No. 541)
>
> I am to refer to your letter dated 1st March in which you make application for a license to permit of a suit being made having more pockets than those laid down in the above-mentioned Order.
>
> It is noted that you do not require more than two pockets in the trousers, and that you would like, instead of the third pocket, to have an extra one in the jacket. I am to say that the Board are not prepared to consider the giving up of a pocket in one garment sufficient reason for the granting of an extra pocket in another garment, since the restrictions are imposed on the separate garment and not on the suit as a whole.
>
> The Board realize, however, that in certain circumstances it may be necessary to vary the restrictions and if you would state why you are unable to make use of the third pocket in the trousers (it is not

necessary that this pocket should be a hip-pocket, the restrictions do not in any way refer to the position of pockets but only to the total number in each garment), thus necessitating the extra jacket pocket, full consideration will be given to the issue of a license. It would also be helpful if you were able to state the exact use to which the extra pockets you require in the jacket and waistcoat are to be put.

With regard to your request for a small subdivision in the right side pocket of the jacket, I am to say that this is not regarded as an extra pocket and that no license will therefore be necessary in respect of this requirement.

The name and address of your tailor should also be stated in order that if a license is issued it may be sent to him.

We can only hope the writer of the letter was aware of its inanity, but in any event he was helpless, a victim of the System.

Standard Costs

(*Continued from page 13*)

controlled and since the market varies for the several products from time to time, there exists the problem of manipulating production so as to realize the maximum margin between market price for the products and costs to refine a barrel of crude oil.

Just as in several of the cases previously discussed, it should be practicable to establish standards per barrel of crude oil by operation for the various combinations of end products and to compare those with actual operation costs.

The foregoing examples should make it clear that the preparation and administration of standard cost procedures call for the services, counsel and actions of many executives, principally in the production and engineering field. The subject should be considered in its full scope not merely as a matter of mechanical routine or as a phase of accounting procedure but more broadly as reflecting the considered plans of practical operating management. Yet standard costs when completed are expressed in accounting terms. Their operation is compared, analysed and interpreted by accounting methods and at every step in their preparation and operation accounting technique and experience are required. Only by coordination of operating data with the accounts can the accounts be helpful to operating management while at the same time assuring the integrity of operating information.

Notes

It is with deep sorrow and a sense of real loss that we record the passing of Mrs. Anna Storey Eves on January 20, 1947.

The first employee of the New York office, Miss Storey was engaged in 1903 as secretary to Col. Montgomery, who had opened the office some months earlier. Intensely loyal, able and willing, her services were invaluable from the first day of her employment until she left the firm at the time of her marriage in 1926. She will always be remembered by those who were privileged to have been associated with her in those earlier years.

She leaves behind her two sisters, Mrs. Edgar Townsend and Miss Reba Storey, the latter of whom took over her sister's duties as general secretary in 1926 until her own retirement in 1945. To them we extend our heartfelt sympathy.

Announcement

Mr. J. Wesley Huss, Jr., formerly of our Rockford office, is now associated with Mr. Halloran in the management of our Louisville office.

Twenty-five Years of Service

Miss Ivon A. Feenie, in charge of the Report Department in the Philadelphia office, completed twenty-five years of service with the firm on August 1, 1946. To commemorate the occasion, Miss Feenie was presented with a wrist watch, suitably inscribed. We wish her continued health and happiness, and hope her association with us will continue for many more years.

Mr. Russell participated as a panel member at the October meeting of The Michigan Association of Certified Public Accountants in a discussion of the papers on accounting procedure presented at the annual meeting of the American Institute of Accountants in Atlantic City.

At the November 21, 1946 meeting of the Western Michigan Chapter of The Michigan Association Mr. Russell discussed the papers presented at the annual meeting of the American Institute relating to valuation of inventories, good will, accounting for income taxes and reinstatement of fully amortized facilities.

On October 14, 1946 Mr. Russell conducted the study group session of the Detroit Chapter of the National Association of Cost Accountants, the topic for discussion being "Incoming Materials Data."

Mr. Dennis addressed the Regional Credit Conference in Cincinnati on November 8, 1946 on "Trends in Corporate Annual Reports." The conference was at-

tended by representatives from Pennsylvania, West Virginia, Ohio, Kentucky and Indiana.

Last November Mr. Dennis was made an honorary member of Beta Alpha Psi, national accounting fraternity, the honor being conferred upon him by the chapter at Miami University, in Ohio. Mr. Dennis was the principal speaker at the November meeting, giving an informal talk on his experiences in public accounting.

On November 12, 1946, Mr. Richardson spoke before the Maryland Association of Certified Public Accountants in Baltimore, his topic being "Possible Subjects of a New Revenue Bill."

Mr. Richardson addressed a technical meeting of The New York State Society of Certified Public Accountants on December 19, 1946, on the subject "Section 102 of the Internal Revenue Code," dealing with the surtax imposed on corporations improperly accumulating surplus.

Mr. Richardson also spoke on "Section 102 Problems" before the Federal Tax Forum, in New York, on November 26, 1946.

On October 22, 1946 Mr. Warner addressed a joint meeting of the Robert Morris Associates and the Missouri Society of Certified Public Accountants on the subject of "Corporations and Partnerships."

Mr. Warner has been appointed by Mayor Kaufman of St. Louis as a member of a Citizen's Tax Commission. The commission, which is composed of leaders from management, labor, finance, professional and other groups, has been asked to study the municipal tax structure and make recommendations as to the possibility of securing additional revenue and also effecting economy measures in the municipal government.

Mr. H. G. Huffmon, of our Detroit staff, addressed the accounting classes at Wayne University on December 2, 1946, on the subject "Evaluation of Internal Control." This is the third year that Mr. Huffmon has talked to Wayne University students on this subject.

On November 21, 1946 Mr. James J. Mahon, Jr., of our Philadelphia staff, addressed a joint meeting of the Philadelphia Chapter of the Pennsylvania Institute of Certified Public Accountants and The National Association of Cost Accountants, his subject being "Matters-in-Process" in the field of federal taxes on corporations.

Mr. Clarence W. Schelb, of our Chicago staff, spoke on the subject of "Year End Closing" at a meeting of the Accountants Club of Aurora, Illinois on November 20, 1946.

Mr. P. M. Armitage, of our Chicago staff, addressed the Accountants Association of Kalamazoo, Michigan, on December 17, 1946, on the subject of "Internal Control."

Mr. A. H. Degener, of our Chicago staff, recently conducted a technical session of the Illinois Society of Certified Public Accountants which was devoted to the subject of "Preparation of Income Tax Returns of Partnerships, Estates and Trusts."

Committee appointments of the American Institute of Accountants so far announced include in their personnel the following partners and members of the staff:

Mr. Sweet,
Executive,
Cooperation with SEC

Mr. Lenhart,
Accountants' Liability and Liability Insurance (Chairman)

Mr. Schaffer,
Accounting Procedure

Mr. Russell,
Professional Ethics (Chairman)

Mr. Jennings,
Cooperation with Stock Exchanges

Mr. Harvey
Coordination of Activities of State and National Organizations (Chairman)

Mr. Warner,
State Legislation

Mr. Richardson,
Federal Taxation
Publications

Mr. R. G. Ankers,
Education

Mr. J. W. Huss, Jr.,
Governmental Accounting (Subcommittee on Municipal Accounting)

Mr. Perry has been appointed a member of the Board of Examiners of the American Institute of Accountants.

Mr. McCullough is serving as a director of the Michigan Association of Certified Public Accountants.

The following members of our organization have been elected to membership in the American Institute of Accountants:

John A. Begg, *Boston*
Thomas A. Campbell, *Los Angeles*
Joseph A. Keefe, *Boston*
William J. L. Lynch, *Boston*
Charles A. McBride, *Philadelphia*
Daniel E. McBride, *Philadelphia*
George A. Nordstrom, *Chicago*
J. Walker Voris, *Los Angeles*

The following have been admitted as associates in the Institute:

Fred P. Albrecht, *Chicago*
C. Robert Bowen, *Chicago*
Joseph H. Eversmann, *Cincinnati*
Louis W. Mette, *San Francisco*
Morris R. Mosteller, *Philadelphia*
Willis K. Waterfield, *Cincinnati*

Mr. John C. Padgett, of our Detroit staff, has passed the Michigan C. P. A. examinations.

Lybrand, Ross Bros. & Montgomery

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Dallas 1	First National Bank Building
Houston 2	Shell Building
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Los Angeles 13	510 South Spring Street
Seattle 1	Skinner Building

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